

INCOME PROPERTY

The City owns and manages an extensive and valuable assortment of property including streets, parks, beaches, public buildings and service facilities. The City also owns and operates a yacht basin, a mobile home park, a luxury residential development and various other income properties. Most of the income property is tidelands, filled tidelands or waterfront. Unencumbered fee value of income property is estimated at upwards of one hundred million dollars, and income typically contributes ten percent of all City revenues.

As owner of property, the City is the steward of a public trust, and state law requires the City to maximize its returns or be subject to a charge of making a gift of public funds. Nevertheless, the City Council recognizes the importance of this property not only as a revenue generator, but also as a means to provide otherwise unfeasible uses and facilities to benefit the community.

In managing its property, the City will continually evaluate the potential of all City owned property to produce revenue. This may include leasing unused land, renting vacant space, and establishing concessions in recreation areas or other similar techniques. The City Council will evaluate the appropriateness of establishing new income properties using sound business principals and after receiving input from neighbors and users.

The policy of the City Council is that income property be managed in accordance with the following:

- A. Whenever a lease, management contract, concession, sale or similar action regarding income property is considered by the City, an analysis shall be conducted to determine the maximum or open market value of the property. This analysis shall be conducted using appraisals or other techniques to determine the highest and best use of the property and the highest value of the property.
- B. All negotiations regarding the lease, management contract, concession, sale or similar action regarding income property shall include review of an appraisal or analysis of the use being considered for the property conducted by a reputable and independent professional appraiser, real estate consultant or business consultant.

- C. The City shall seek, whenever practical and financially advantageous, to operate or manage all property and facilities directly with City staff or contractors.
- D. In all negotiations regarding the lease, management contract, concession, sale or similar action regarding a non-residential income property, the City shall seek revenue equivalent to the open market value of the highest and best use; and, whenever possible the City shall conduct an open bid or proposal process to insure the highest financial return.
- E. Whenever less than the open market or appraised value is received or when an open bid process is not conducted, the City shall make specific findings setting forth the reasons thereof.

Such findings may include but need not be limited to the following:

1. The City is prevented by tideland grants, Coastal Commission guidelines or other restrictions from selling the property or converting it to another use.
2. Redevelopment of the property would require excessive time, resources and costs which would outweigh other financial benefits.
3. Converting the property to another use or changing the manager, concessionaire or lessee of the property would result in excessive vacancy, relocation or severance costs, which would outweigh other financial benefits.
4. Converting residential property to another use or opening residential leases to competitive bid would create recompensable liabilities and other inequities for long-term residents.
5. The property provides an essential or unique service to the community that might not otherwise be provided were full market value of the property be required.
6. The property serves to promote other goals of the City such as affordable housing, preservation of open space or marine related services.

- F. Generally, lengths of leases, management contracts, concessions or similar agreements will be limited to the minimum necessary to meet market standards and will contain appropriate reappraisal and inflation protection provisions. Also, all agreements shall contain provisions to assure complete audits periodically through their terms.
- G. All negotiations regarding the lease, management contract, concession, sale or similar action regarding income property shall be conducted by the City Manager or his designee under the direction of any appropriate City committees prior to consideration by the City Council.
- H. To provide an accurate accounting of actual net revenues generated by the City's income property, all costs and charges directly attributable to the management of a specific income property shall be debited against the gross revenues collected on that property in the fiscal year the costs are incurred. Costs and charges include property repairs and maintenance, property appraisals, and consultant fees, as authorized by the City Council, City Manager or by this Income Property Policy.
- I. The City Manager is authorized to sign an amendment to the lease, management contract, concession or similar agreement in order to correct any errors or discrepancies in the agreement, or to clarify provisions in the agreement. The City Manager is also authorized to sign an amendment if circumstances arise that were not reasonably foreseeable by the parties, which need to be addressed in an amendment. Notwithstanding the foregoing, the City Council shall authorize any amendment which increases or decreases the annual revenues in the agreement by \$10,000 or more.

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